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1. **Lea County Electric believes, if given time to work, FERC Order 888 and subsequent orders associated with wholesale deregulation will result in electric price decreases. Disparity in price is attributable strictly to generation costs. Wholesale deregulation is already reducing wholesale costs in Texas and New Mexico. These savings are being passed on to the retail customers.**
2. **Retail wheeling will not work as envisioned by proponents - here's why:**
  - A **Proponents assert this is similar to telephone deregulation. It is not. No matter which power marketer sells you the power, your power will be provided from a generator in close proximity to your retail load. If generation costs are forced to conform to retail pricing (assuming it is a lower retail price) the result will be reduced reliability. Keep in mind: this is an instantaneous, as well as time driven-service (or product, or commodity)**
  - B. **The concept doesn't require a capitalistic transaction where the seller accounts for the capacity one purchases against the power one sells. This will lead to:**
    - 1.) **Predatory pricing for market share; the few remaining marketers will exact fees in the transaction ultimately driving up the cost unnecessarily.**
    - 2.) **Redistribution of a distribution utility's capacity (demand) costs, If dis-aggregated, a distribution utility must reassign capacity costs as components (customers) are re-aggregated in different sell-groups by power marketers.**
  - C. **Rate payers are being burdened with stranded costs now. Accelerating recovery of stranded costs or condensing recovery into a short time period (e.s. TNP Community Choice and California utilities recovering stranded costs now) overcharges current customers unnecessarily.**

3. **Restructuring on the retail level, if it must come, must come through state legislation because:**

A. **Service territory assignments are controlled by state Public Utility Commissions. Imposing a federal scheme creates potential for retail stranded costs.**

B. Ricing electricity will **continue** in three categories: service, **energy**, and **demand**. **True use-sensitive** pricing mod& **must** take **into consideration** among **other** things:

1.) **A region's climate patterns.**

2.) **Predominate fuel used** for generation

3.) Customer's **use characteristics**. (DO **residential customers use refrigerated** air as a rule?)

4.) Is the **populous** mostly urban or **rural**?

Retail wheeling **will** permit **energy-only pricing**.

C. **If a state's path to retaining low electric prices or to reduce prices is through** traditional cost of service **pricing** and taking advantage of wholesale **deregulation**, a federal **mandate might jeopardize** these **efforts**.

D. Rural electric **cooperatives**, like municipal **systems**, have the ultimate **form** of consumer accountability • our customers **govern** our **operations**. States should determine **these critical issues for cooperatives**:

1.) The impact **of** retail choice on **universal service requirements** in **rural** areas could be **significant**. The idea of a **universal** service **fund** similar to the **telephone industry's** will **lose its appeal** once **contributors see the cost** of rural **line extensions**. **Furthermore**, the state has the ultimate **responsibility** to ensure universal **service**.

2.) **Dis-aggregation** has a cost. **Members of cooperatives** should decide whether or not **to dis-aggregate**. For most small

cooperatives, dis-aggregation does NOT make sense due to the relatively small scale of their operations. States currently have regulatory oversight over allocation of distribution costs. Dis-aggregation will cause the "deck to be reshuffled" each time a customer or group of customers, (whether or not they are of the same usage class) leave the distribution utility. The state must oversee the re-allocation of these costs.

4. **If deregulated, not all prices will fall. For Lea County Electric Cooperative, the most disturbing idea about retail wheeling is the "homogenizing" effect of generation costs. It is averaging. some prices fall, other prices rise, until there is equalization. Failure to recognize that there are valid reasons for some regional generation price disparities will result in forced generation standardization that causes service reliability problems in some regions, undesirable consequences in some regions, or cross-subsidization of generation costs.**
5. **Now is not the time to act. What if FERC cannot achieve through functional unbundling the desired true-open access mandated in FERC Order 8881 If structure unbundling is required (or divestiture) there will be price chaos at the retail level. There is economic elasticity in electric pricing and usage. Reversing the effects of premature pricing of retail wheeling could take years to correct since elasticity of use is not instantaneous, but takes years to materialize.**